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No. 82-399

IN THE

Supreme Court of the United States

October Term, 1982

SPAN-DECK, INC.,

Petitioner,

v.

FABCON, INCORPORATED, and
RAUENHORST CORPORATION,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

RESPONDENTS' BRIEF IN OPPOSITION

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QUESTIONS PRESENTED

I. Where a license agreement included both patent and nonpatent rights, and the supporting patents were held invalid, or not infringed, did the Court of Appeals err in holding that the licensor could recover only the value of the nonpatent consideration prior to the agreement's expiration rather than the entire unapportioned royalty provided in the agreement?

II. Did the Court of Appeals err in holding a patent invalid for obviousness as a matter of law under *either* of two accepted standards of review?

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RESPONDENTS' BRIEF IN OPPOSITION

Respondents Fabcon, Incorporated ("Fabcon"), and Rauenhorst Corporation ("Rauenhorst")[1] respectfully request that this Court deny the petition for writ of certiorari, seeking review of the judgment of the United States Court of Appeals for the Eighth Circuit in this case.

[1] Fabcon is a wholly-owned subsidiary of Rauenhorst. Since the decision of the Court of Appeals in this action, Rauenhorst has changed its name to Opus Corporation; its former name will be used here for consistency with the opinions below. Rauenhorst has no other subsidiaries, apart from wholly-owned subsidiaries.

OPINIONS BELOW

The petition seeks review of a decision of the United States Court of Appeals for the Eighth Circuit (677 F.2d 1237;[2] Petition, App. A), which vacates the judgment of the United States District Court for the District of Minnesota and remands the action for further proceedings, including a partial retrial. The opinion of the District Court, which is unreported, is set out in Appendix B to the petition.

STATEMENT OF THE CASE

In October 1970, Fabcon entered into a license agreement with petitioner Span-Deck, Inc. ("Span-Deck"), relating to the manufacture of hollow-core concrete plank. The agreement provided that Span-Deck would grant Fabcon a license under two patents (the "Kinnard" patent, U.S. Patent No. 3,217,375, and the "Mitchell" patent, U.S. Patent No. 3,523,-243) which was exclusive in a specific territory; sell Fabcon equipment for manufacturing concrete plank; make Span-Deck's experience and knowledge, its know-how and trade secrets, available to Fabcon; and grant exclusive rights to two Span-Deck trademarks. In addition to the purchase price for the equipment, Fabcon agreed to pay Span-Deck an unapportioned royalty based on Fabcon's production of concrete plank. Fabcon was granted the right to terminate the agreement if the licensed patents were held invalid or not infringed. (Petition, App. G, p. A-77, ¶ 4.1.)

Fabcon made royalty payments from July 1971 until February 1973. In April 1973, the president of Rauenhorst, Fabcon's sole owner, informed an officer of St. Regis Paper

[2] The citation in the petition is incorrect.

Co., the sole owner of Span-Deck, that Fabcon and Rauenhorst believed the Kinnard and Mitchell patents were invalid, and urged unsuccessfully that the agreement be terminated by mutual consent. Fabcon never resumed the payment of royalties. In April 1975, Fabcon gave Span-Deck written notice of non-renewal of the agreement upon its initial scheduled expiration in October 1975.

Span-Deck commenced this action in November 1973, alleging, *inter alia*, that Fabcon's failure to pay royalties was a breach of the agreement and that Rauenhorst had induced that breach.[3] Fabcon and Rauenhorst answered that their conduct was not improper because the Kinnard and Mitchell patents were invalid, and, therefore, under *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), Fabcon's contractual obligation to pay the stated royalty was unenforceable. They counterclaimed for a declaratory judgment that Span-Deck's patents were invalid and/or not infringed.

This action was tried between November 1980 and February 1981. In response to special verdict questions (Petition, App. C), the jury found that Span-Deck's patents were valid, that Fabcon had breached the agreement, and that Rauenhorst had induced Fabcon's breach.[4] Judgment was entered by the District Court. On post-judgment motions by Fabcon and Rauenhorst, the District Court determined, as a matter of law, that the Kinnard patent was not infringed by Fabcon's manu-

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[3] "Alternative" theories were also asserted, including, *inter alia*, patent and trademark infringement and misappropriation of trade secrets.

[4] Findings favorable to Span-Deck were also returned on its "alternative" theories of patent infringement and misappropriation of trade secrets. However, judgment was never entered on these findings.

facture of concrete plank.[5] In all other respects, the District Court refused to disturb its judgment.

On appeal, the United States Court of Appeals for the Eighth Circuit vacated the judgment below, and reversed and remanded for further proceedings. It held, first, that the Mitchell patent was invalid as a matter of law, concluding that the evidence was inadequate to support the jury's findings on the issue of obviousness, regardless of whether those findings were reviewed on a "substantial evidence" test or on an independent evaluation of the evidence by the appellate court. (Petition, App. A, pp. A-9-16; 677 F.2d at 1241-45.) Second, applying the decisions of this Court in *Lear, Inc. v. Adkins, supra*, and *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), the Court of Appeals held that, since one of the licensed patents was invalid and the other was not infringed, Fabcon was justified in discontinuing payment of the stated royalty, and Rauenhorst, Fabcon's parent, was entitled as a matter of law to encourage Fabcon's conduct. (Petition, App. A, pp. A-16-23, A-27; 677 F.2d at 1245-47, 1249.)

Contrary to repeated implications in the petition, the Court of Appeals did not hold the agreement void in its entirety or deny Span-Deck all relief thereunder. Instead, it remanded this action to the District Court for a determination of the value of any nonpatent rights which Fabcon had received under the agreement, but had not paid for, before the agreement expired in October 1975, and also remanded for a determination of Span-Deck's claims for Fabcon's alleged post-

[5] Span-Deck did not appeal this determination.

expiration use of trade secrets. (Petition, App. A, p. A-27; 677 F.2d at 1249.)[6]

REASONS FOR DENYING THE WRIT

I. THE DECISION OF THE COURT OF APPEALS DOES NOT INTRUDE ON STATE LAW CONSIDERATIONS, AS CLAIMED BY PETITIONER, AND FOLLOWS PRIOR DECISIONS OF THIS COURT.

Span-Deck attempts to pique this Court's interest in its petition by characterizing the issue as one of federalism, suggesting that the decision below intrudes to an extent unwarranted by federal patent policy on state principles of contract law. This characterization ignores the crucial significance of the Court of Appeals' remand to the District Court and fails to recognize that the Court of Appeals' decision was compelled by *Lear, Inc. v. Adkins, supra.*

A. The Court of Appeals refused to enforce the agreement only to the extent that its patent consideration had failed, and remanded for a valuation of any remaining consideration.

Span-Deck would have this Court believe that the Court of Appeals invalidated the Span-Deck/Fabcon agreement and

[6] The Court of Appeals' discussion (Petition, App. A, pp. A-22-23; 677 F.2d at 1247) of *St. Regis Paper Co. v. Royal Industries*, 552 F.2d 309 (9th Cir.), *cert. denied*, 434 U.S. 996 (1977), and its unexplained citation of *Dusenka v. Dusenka*, 221 Minn. 234, 21 N.W.2d 528 (1946), may indicate that the Court had in mind a quasi-contract or unjust enrichment theory, rather than a contract theory, as the basis for a possible recovery by Span-Deck. Whatever the theory, however, the result is the same—Span-Deck may be compensated for the value of any nonpatent consideration which it provided to Fabcon pursuant to the agreement if it can establish that such consideration possessed an independent value.

ignored the possible existence, and value, of valid non-patent consideration. This is simply untrue. All the Court of Appeals held was that: (1) because all patent consideration supporting the agreement had entirely failed,[7] the obligation to pay the stated, unapportioned royalty was unenforceable; and (2) because the agreement did not expressly apportion royalties between patent and nonpatent consideration, further proceedings in the District Court were necessary to ascertain the value to Fabcon of whatever nonpatent rights had been conveyed by Span-Deck before the agreement expired.

The Court of Appeals' decision follows directly from this Court's holding in *Aronson v. Quick Point Pencil Co., supra.* The Court of Appeals had held, in *Aronson,* that the invalidity of patents underlying a "hybrid" license freed the licensee of its entire obligation to pay royalties, despite the fact that the contract expressly apportioned part of the royalties to nonpatent consideration. This Court reversed, holding that the refusal to enforce the apportioned royalty for nonpatent rights was an interference with state contract law beyond that warranted by federal patent law policies.

Here, by contrast, the Court of Appeals made no such intrusion. It declined to enforce the agreement *only* to the extent demanded by the federal patent policy prohibiting the extraction of a royalty for invalid or noninfringed patents. It left untouched the normal principles of state law with respect to Fabcon's obligation to pay for any valid nonpatent

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[7] Contrary to repeated assertions in the petition, there was no valid patent consideration to support the agreement. The Mitchell patent was, of course, held invalid. While the Kinnard patent was held to be valid, the District Court held (also contrary to the jury's verdict) that it was not infringed by Fabcon. The agreement specifically equated patent invalidity and noninfringement as grounds for termination. (Petition, App. G, p. A-77, ¶ 4.1.)

consideration it may have received from Span-Deck while the agreement was in effect. The procedural result in this case (remand for determination of the value of nonpatent consideration) differs from the result mandated by this Court in *Aronson* (enforcement of the obligation to pay the apportioned royalty for nonpatent rights) only because here, unlike *Aronson*, the agreement failed to apportion the stated royalty between patent and nonpatent rights.[8] The result here is exactly the same as the result this Court declined to review, on substantially identical facts, in *St. Regis Paper Co. v. Royal Industries*, 552 F.2d 309 (9th Cir.), *cert. denied*, 434 U.S. 996 (1977).

B. The limitation on *Lear* urged by Span-Deck was rejected in *Lear* itself as inconsistent with the federal patent policies underlying that decision.

In *Lear, Inc. v. Adkins*, *supra*, this Court held that, in order to encourage challenges to patents of questionable validity, federal patent policy requires—notwithstanding state law or contract provisions to the contrary—that a licensee be allowed to withhold royalties while litigating its challenge to a licensed patent. If the challenge succeeds, the accrued unpaid royalties never need be paid; if it fails, the licensee is liable for breach of contract. Span-Deck contends, however, that the rule is different where nonpatent, as well as patent, rights are involved. In Span-Deck's view, the recitation of nonpatent consideration in the license agreement required Fabcon,

[8] The same certainty and clarity provided by apportionment of the single royalty in *Aronson* would also have been possible here if Span-Deck had licensed its patents and its nonpatent rights, if any, separately instead of "bundling" both unenforceable patent rights and nonpatent rights in a single license agreement.

despite *Lear*, to continue paying full royalties until its challenge to the patents succeeded, and to continue such payments thereafter as long as the agreement remained in effect.

An identical argument was raised, and specifically rejected by this Court, in *Lear*. Like this case, *Lear* involved, not a pure patent license, but a "hybrid" license including nonpatent consideration (the disclosure of Adkins' invention to Lear before the patent issued) as well as a patent license. Adkins took the "extreme position" (identical to Span-Deck's position here) that the presence of nonpatent consideration obligated Lear to pay the entire royalty provided by the contract for the entire term of the contract "without regard to the validity of the Patent Office's grant." 395 U.S. at 672. This Court rejected the argument, holding that Lear could withhold *all* royalties pending litigation and that, if the patent was ultimately held invalid, it would be freed from *all* royalties *at least* from the date the patent issued. This Court reasoned that to vary the licensee's rights depending on the presence of nonpatent consideration would create a loophole in the general rule which would "disabl[e] entirely all those who have the strongest incentive to show that a patent is worthless." *Id.* This reasoning compels as well the rejection of the position urged by Span-Deck, as the Court of Appeals specifically recognized. (Petition, App. A, p. A-23, n. 12; 377 F.2d at 1247, n. 12.)

C. Summary.

The Court of Appeals carefully distinguished between Fabcon's right to be freed from royalty payments for failed patent consideration and its obligation to pay for whatever nonpatent consideration it received until the license agree-

ment expired in October 1975. This distinction accords precisely with this Court's ruling in *Aronson*. Span-Deck's attempt to retain the entire contract royalty on account of partial nonpatent consideration is specifically precluded by *Lear*. In sum, Point I of the petition raises no question on which this Court has not already ruled clearly, and the petition should therefore be denied.

II. THIS CASE IS NOT AN APPROPRIATE VEHICLE FOR RESOLUTION OF THE PERCEIVED SPLIT OF AUTHORITY CONCERNING THE PROPER STANDARD OF APPELLATE REVIEW OF ISSUES OF PATENT INVALIDITY FOR OBVIOUSNESS.

Stripped of rhetoric, Points II and III of the petition amount in large measure to a request that this Court second-guess the Court of Appeals' review of the evidentiary support for the jury verdict[9] by examining that evidence itself. This is the predictable response of any litigant who obtains a verdict in the trial court, only to be told by an appellate court that a verdict should have been directed against it. It is clear beyond question that Seventh Amendment rights are not infringed when a court, applying proper standards, grants

[9] Even this may give Point II more credit than it deserves. Contrary to the impression given by the petition, the Court of Appeals' ruling that Rauenhorst was justified, as a matter of law, in encouraging Fabcon's termination of royalty payments did not set aside a jury finding on the question. The jury was never instructed on the "justification" element of inducement of breach of contract, as required by Minnesota law, or on Rauenhorst's *Lear* defense based on that element. Therefore, no finding on that element can be inferred from the jury's verdict. Rauenhorst asserted in the Court of Appeals that these failures of instruction were reversible error, but the Court did not have to reach the question. (Petition, App. A, p. A-19; 677 F.2d at 1246.)

a directed verdict, *Galloway v. United States*, 319 U.S. 372, 389 (1943), or a judgment notwithstanding the verdict. *Baltimore & Carolina Line, Inc. v. Redman*, 295 U.S. 654 (1935); *Manaia v. Potomac Electric Power Co.*, 268 F.2d 793 (4th Cir.), *cert. denied*, 361 U.S. 913 (1959).

In an effort to raise an issue more worthy of this Court's attention than a mere question of fact, Span-Deck also contends that there is a split of authority among the courts of appeals as to the proper standard of review of jury determinations on questions of a patent's obviousness. It urges this Court to accept this case as a means of resolving the conflict.

There is, in fact, some disagreement among the circuits as to the relative weight to be given to jury findings bearing on the ultimate legal issue of obviousness.[10] This case is not the appropriate vehicle for resolving that disagreement. Far from adopting one side or the other of the perceived dispute among other circuits, the Court of Appeals in this case specifically declined to take a position on the question. Instead, it reviewed the evidence concerning the Mitchell patent's obviousness according to *both* the "substantial evidence" test *and* the "independent evaluation" approach, and concluded that the jury's verdict could not be sustained under *either* standard. (Petition, App. A., p. A-9; 677 F.2d at 1242.)

Given this treatment of the standard of review conflict, it would be impossible for this Court to dispose of this case merely by deciding which is the correct standard. It would

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[10] This Court has denied certiorari petitions asking that it rule on the proper standard of review of a jury's findings relating to obviousness at least twice in the past two years. *Control Components, Inc. v. Valtek, Inc.*, 609 F.2d 763 (5th Cir.), *cert. denied*, 449 U.S. 1022 (1980); *Dual Manufacturing & Engineering, Inc. v. Burris Industries, Inc.*, 619 F.2d 660 (7th Cir.) (en banc), *cert. denied*, 449 U.S. 870 (1980).

inevitably be necessary for the Court to go further and consider whether the applicable standard was properly applied to the facts presented in this case. Such a foray into the record of the 35-day trial in this patent case should not commend itself to the consideration of this Court, especially in light of the Court of Appeals' conclusion "that the Mitchell patent is so clearly invalid that no jury question was made out." (Concurring opinion of Judge Arnold, Petition, App. A, p. A-28; 677 F.2d at 1250.)

CONCLUSION

For the foregoing reasons, it is respectfully submitted that the petition for a writ of certiorari should be denied.

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Respectfully submitted,

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